

Easing The Transition with Activity Based Costing and Management

Getting Costing Information to Support Appropriate Pricing

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British Columbia's Shared Service Agency Solutions was (and still is) experiencing the typical challenges associated with the transition to a shared services model. Traditional "resistance to change" issues were evident, both inside the organization and with our ministry clients who were struggling with the loss of control, and had doubts about whether savings would materialize and/or be reflected in our rates. They were also concerned about giving up customized services for what they thought may be a diluted and less satisfactory service. At the same time, with an increasing need to reduce budgets, ministries were most concerned with lowering costs. All of this created impatience and pressure for immediate change and payback.

A New Shift

Within SBC, we were managing a multitude of change initiatives. Business lines were busy: bringing their operations together under one organization; centralizing activities previously performed within client ministries; implementing new technology and processes; and for some of our services, shifting from

Deborah Meyers joined British Columbia's Shared Service Agency Solutions BC (SBC), just weeks before its official implementation date of April 1, 2003. SBC provides services in four key areas (See Figure 1)—Payroll; Common IT Services; Corporate Accounting Services; and Procurement and Supply Services—to 20 Provincial Ministries and over 29,000 employees. Some of these same services are also provided to external customers in the broader public sector. This article describes the organization's search for the right costing information to support informed and appropriate pricing.

a fixed budget to a chargeback basis. At the same time, we were experiencing budget pressures ourselves.

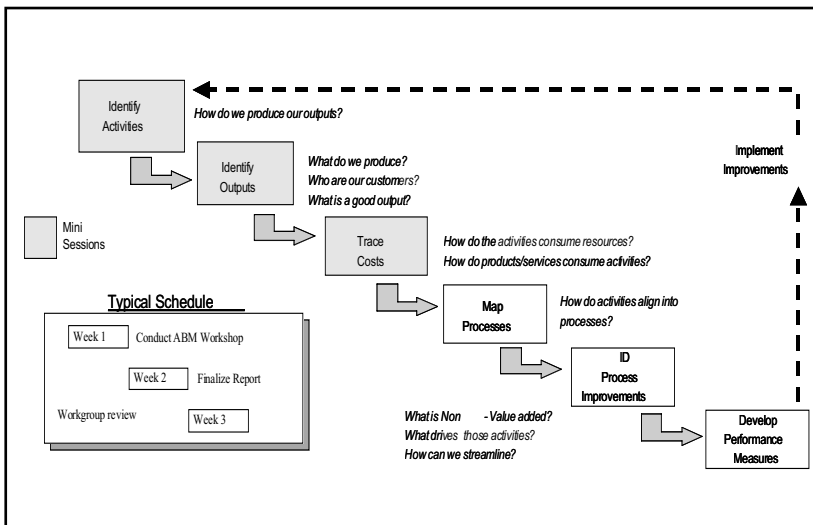
As part of the shift to the new model, SBC was committed to providing transparent costing information to substantiate its pricing for the 2004/05 budget cycle. An Activity Based Costing

initiative had been underway for several months. However, the project, for a variety of reasons, had bogged down. The working group, composed of financial reps from each business line, disagreed on the level of detail required, questioned the need and/or readiness for activity-based costing, and had varying interpretations of the

SOLUTIONS BC		
	<u>REV</u> ((\$millions)	<u>FTE's</u>
Payroll	22	230
Corporate Accounting Service	18	60
Common IT Services	208	570
Procurement & Supply Services	<u>92</u>	<u>380</u>
	<u>340</u>	<u>1,240</u>

Figure 1

Figure 2



exercise to a later date. Over the course of three months we were able to complete the two full week consultant-led sessions and 24 "mini" costing sessions.

While the limited time frame precluded using a fully implemented costing model for our 2004/05 pricing, we now have a standard, repeatable process that, over the course of the upcoming year, can be expanded.

We were also able to provide significant costing information to support pricing, and demonstrate our commitment to open and transparent chargebacks. The activity information provided insights into cost drivers—increasing both business line and customer awareness and understanding of our costs, and the interrelationship of activities between customers, vendors, and other SBC business lines.

The exercise also flushed out areas of "cross-subsidization"—meaning activities that are provided without specific charge. Given that SBC is recovery based, any time this occurs, it must obviously be paid for within some other service's charge. The ability to identify "true" costs helps SBC to eliminate the over/under charging and ensure that our pricing remains competitive. This is critical for us as clients will soon have the ability to choose alternate service providers. If cross subsidization exists, it will drive clients elsewhere for overcharged services ("winners"), and leave us to continue producing only "losers"—hardly a sustainable position!

While our experience with the full week sessions was more limited, the two sessions confirmed the value of the overall process. The ability to apply the cost data to identified process improvement opportunities is extremely powerful.

anticipated "final product". Given that the government's budget cycle commences in early September, I had five months to come up with credible costing information.

To meet this commitment, a simple and pragmatic approach was needed. At the same time, we needed to do something to relieve our budget pressures. After doing some research, I was pleasantly surprised that Activity Based Management (ABM) could meet both these needs, and more. After reviewing a number of approaches, we selected one—BAE Systems' FASTTRACK—which was both fast and intuitive, providing information in one week, and presenting ABM in a very simple and pragmatic way. Managers "bought in" to the idea because they found the approach was simple and understandable, fast, unobtrusive, and immediately useful. From my own perspective, I liked the approach because it focused on transfer of knowledge. Since continuous improvement is one of SBC's principles, it was important to build the internal process and skill to address improvement on a regular basis. This could not be a one-time shot!

The Approach

We established an internal team, The Value Enhancement Team, (VET) with a plan that the team train with the consultant by participating/assisting in two consultant-led working sessions. With the right skill sets, the VET should then be able to continue providing working sessions without consultant assistance. The typical schedule involves conducting a workshop during the first week with representatives of a selected organizational unit. During the second week, the VET drafts and finalizes the report of the session for presentation back to workshop participants.

While the full ABM Session was preferable, our pressing need for costing information by August required some modifications to meet that deadline. With the consultant, we developed two day "mini" costing sessions, which in essence covered the first three steps of the full week session. (See Figure 2). This allowed us to obtain costing information for many more organizational units during the limited time frame, although it deferred the process improvement

We now are able to provide management with a quantifiable return on investment (ROI) to assist their decision-making and crystallize areas for strategic "re-thinking". Although it was a small sample, the amount of Non Value Added Activities discovered in each session was significant, with savings opportunities ranging from 10-30 percent of budget—well within the typical results for this approach.

Change Management Tool

There are subtler benefits as well. I have found this to be a great change

without challenge. Even though we had Executive approval and sanction to proceed with the initiative, we still encountered resistance. Managers needed to be convinced of its value, and were less than willing to free up staff time to participate when they were so needed to complete other pressing work. We have let the process sell itself, and more and more, managers are contacting us to schedule a session. The ability of this quick and simple approach to provide adequate levels of precision was also frequently questioned. Generally speaking, we found that the process results in about 80-90

immediate commitment for costing information, having the sole focus on costing removed the sense of immediate value to the participants who were the staff performing the day-to-day work. Participants need the bridge to the process improvement exercises that they can relate to. Otherwise, many view the sessions as an accounting exercise of little or no use to them. This was not the case in the full sessions performed. In addition, splitting the session into two obviously created some inefficiencies. With a time span in between, under our current rapidly changing environment, we'll likely need to revisit the data gathered in the initial two days, and refresh participants on the process and principles that were covered then. We knew this at the onset, but the need for the information far outweighed the cost of any inefficiencies we expect to experience.

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Where to From Here?

The VET continues to facilitate sessions throughout the organization, expanding our usage throughout SBC. Client ministries are now interested in applying the process themselves and plans are underway to offer the service to our clients for the 2004/05 fiscal year.

With the ABM process in place, we can continue our shift to rates-based pricing that is transparent, credible and easily understood by our clients. We can meet our commitment to continuous improvement, and ensure we provide customers with innovative and cost-effective services.

management tool. The shift in perspective of the participants during this one-week session is amazing. They appreciate being involved, they begin to look at their work differently—taking ownership of it and how to change it, they are excited at the prospect of eliminating wasted efforts, and they become less hesitant to question the *status quo*. This seems to me to be a great basis for the shift to a client-focused, responsive culture.

Accuracy

The past three months' efforts have been extremely fruitful, but not

percent accuracy—a level most managers are comfortable with for strategic decision-making. Should we encounter specific areas requiring more precision, we will investigate the value of the additional effort required for increased accuracy.

Lessons Learned

Would I change anything in hindsight? No, but I would definitely have avoided modifying the full week process into "mini" sessions, if I could. While the "mini" sessions were necessary and invaluable in helping us meet our

Summary

ABM provided SBC with results

quickly, and helped us meet our immediate costing needs. It prepared the way for a fully implemented costing/chargeback model and provided an internal process to "give legs" to continuous improvement. Some points to consider:

1. Keep it fast and simple.
2. Don't get bogged down in detail and accuracy. Go for increased accuracy only where the additional effort warrants it.
3. Eliminate cross-subsidization.
4. Use an approach that transfers the knowledge so that you create the internal continuous improvement process.

Hear Deborah Meyers discuss Activity Based Costing at the Shared Services Summit West conference, running October 27-30, 2003 in Palm Springs, California. Contact Guy.clayton@iqpc.com for a registration form.



Deborah Meyers is Chief Financial Officer at Solutions BC Shared Services. Deborah joined BC's public service in 1988, as Internal Audit Manager, with the Ministry of Finance and Corporate Relations, Internal Audit Branch. Shortly after, she went on to the Ministry of Environment as Senior Financial Officer. In 1992, she moved to the Ministry of Women's Equality, where, as Executive Director, Management Services, she led the development of the Management Services Branch for that ministry.

In 1994, Deborah left the public service to establish a management consulting practice. As a consultant, she worked with many ministries and Crown Corporations, particularly assisting with the implementation of new initiatives and the strategic management of change.

Her interest in the Province's plans to fundamentally change the way government operates, including the introduction of Shared Services, drew her back to the public service in February, 2003 to take on the position of Chief Financial Officer for the new Shared Services Agency, Solutions BC (SBC). Her focus since joining SBC has been the implementation of Activity Based Management (ABM) within the organization. SBC's Value Enhancement Team has delivered over 25 studies in cost analysis and process improvement to date.

Shared Services News "Top Ten" SSOs

For the second year running, Shared Services News is reaching out to the international shared services community to ask for its nominations to the Top Ten "Most Admired" Shared Services Organisations – 2003.

This list is compiled entirely on the basis of industry recommendation. You may have heard about a company at a conference, read about a particular SSO in this newsletter, gained insight during a site visit, or otherwise come across an organization that you think is making strides in its shared services organization.

Send an email listing those organizations whose SSCs you think merit particular recognition, to the Editor, Barbara Hodge at bhodge@aug.com.

The final list will be published on our website, as well as in the December 2003/January 2004 issue of Shared Services News.

Deadline for nominations is Monday, 1 December 2003.

*Send in your
nominations now!*